One Savings Bank

2014 Preliminary Results

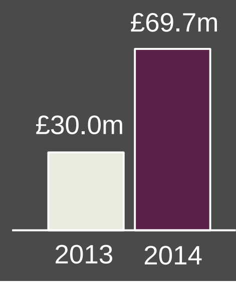
17 March 2015

Specialist
Personal
Flexible

Performance highlights

Underlying PBT

+133%

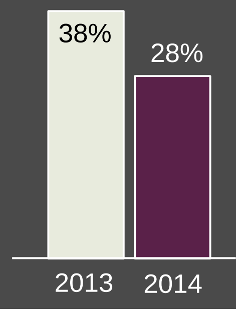


Loans & Advances

+ 29%

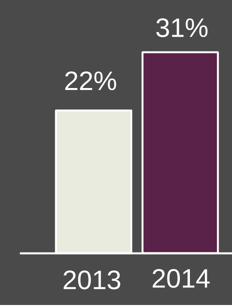
Cost : Income ratio

Improved by 10% points



Underlying RoE

+ 9% points

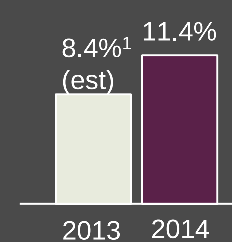


Proposed Dividend

3.9 pence per share

Fully-loaded CET1 Ratio

Strengthened by 3% points



[1] Estimated under Basel III CRD IV as at 31 December 2013.

Delivering on our financial objectives 2014 - 2016[1]

		2014 result
Funding / Liquidity strength	Maintain loan to deposit ratio of <100%[2]	**90%**
Cost discipline	Cost:Income ratio of <35%	**28%**
Capital strength	CRD IV CET1 ratio >10%	**11.4%**
Shareholder returns	RoE of >25%	**31%[3]**
Dividend policy	Pay-out ratio of ≥25%	**25%**

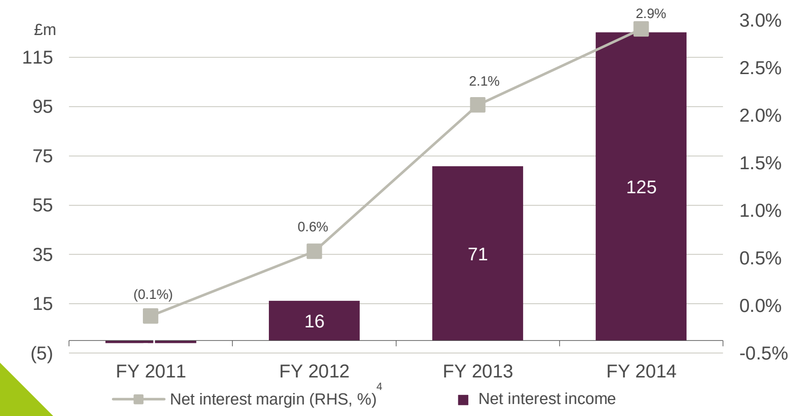
1 Objectives relate to the current financial planning cycle that lasts until the end of 2016. This does not represent any forecast, target or expectation as to future results or performance and there can be no assurance that the objective will be met.
2 Excluding the impact of any drawdown under the Funding for Lending Scheme (FLS).
3 Underlying profit after taxation (profit after taxation excluding exceptional IPO expenses, including the tax effect, of £6.4m in 2014 and after deducting coupons on equity PSBs of £1.1m (after tax) in 2014 and £1.5m in 2013) as a percentage of average shareholders' equity (excluding equity PSBs of £22m).

Key Financial Indicators

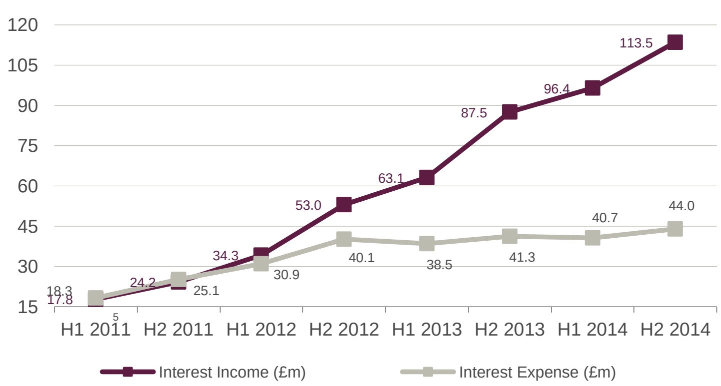
One Savings Bank

1 Improved underlying profitability[1]…

2 …Driven by high-margin new lending[3]…



2014
RoE[7] of 31%



3 …Well managed cost of funds / liquidity…

4 …and disciplined cost control

1 Before exceptional IPO expenses of £7.4m in 2014 and after deduction of coupons on equity PSBs of £1.5m in each period. Excludes negative goodwill of 17.6m in 2012.
2 2011 financial information for the 11 month period ended 31 Dec-11.
3 Adjusted for coupon payments on PSBs classified as equity.
4 Net interest income, less coupons on equity PSB's as a percentage of average interest bearing assets, on a yearly basis.
5 Five month period ended 30 June 2011.
6 Administrative expenses including depreciation and amortisation as a percentage of total income after deducting coupons on equity PSB's.
7 Underlying profit after taxation (profit after taxation excluding exceptional IPO expenses, including the tax effect, of £6.4m in 2014 and after deducting coupons on equity PSB's of £1.1m (after tax) in 2014 and £1.5m in 2013) as a percentage of average shareholders' equity (excluding equity PSB's of £22m).

Income Statement

£m	2014	2013	2014 vs 2013 Variance	2014 vs 2013 % change
Net interest income	125.2	70.8	54.4	*77%*
Other income / (expense)	(6.3)	(5.3)	(1.0)	*18%*
Total income	**118.9**	**65.4**	**53.5**	***82%***
Operating expenses	(33.3)	(24.5)	(8.8)	*36%*
Operating profit	**85.6**	**40.9**	**44.7**	***109%***
FSCS provisions	(2.8)	(2.2)	(0.6)	*29%*
Impairments	(11.7)	(7.3)	(4.4)	*59%*
Profit before exceptional IPO expenses	**71.2**	**31.4**	**39.8**	***127%***
Exceptional IPO expenses	(7.4)	-	(7.4)	*n.m.*
Tax	(12.2)	(4.6)	(7.6)	*163%*
Profit for the period	**51.5**	**26.8**	**24.8**	***93%***
Underlying PBT[1]	69.7	30.0	39.8	*133%*
Underlying profit for the period[2]	56.8	25.3	31.4	*124%*
Net interest margin[3]	**2.91%**	**2.11%**	**80bps**	
Cost / income ratio	**28%**	**38%**	**10pps**	
Management expense ratio	0.77%	0.72%	(4)bps	
Impairments / avg gross loans	0.33%	0.28%	(6)bps	
Underlying EPS[4]	24.4p	13.4p	11p	
Underlying return on equity[5]	31%	22%	9pps	

2014 vs. 2013

- **Strong growth in net interest margin** driven by high-margin new lending, further offsetting the low-yielding Kent Reliance back-book, and the falling cost of retail funds
- **Improving Cost:Income ratio** reflects high margin lending, and continued focus on cost discipline
- **Impairment charge** for 2014 includes full year charge of £5.9m on the personal loan portfolio purchased as a performing book in July 2013
- **Underlying PBT more than doubled**

[1] Before exceptional IPO expenses of £7.4m in 2014 and after deduction of coupons on equity PSBs of £1.5m in each period.
[2] Profit after taxation excluding exceptional IPO expenses, including the tax effect, of £6.4m in 2014 and after deducting coupons on equity PSB's of £1.1m (after tax) in 2014 and £1.5m in 2013.
[3] Net interest income, less coupons on equity PSB's, as a percentage of average interest bearing assets, on a yearly basis.
[4] Underlying profit after taxation divided by the weighted average number of ordinary shares in issue.
[5] Underlying profit after taxation as a percentage of average shareholders' equity (excluding equity PSBs of £22m).

Balance Sheet

£m	2014	2013	2014 vs 2013 Variance	2014 vs 2013 % change
Liquid assets	926	630	296	*47%*
Net customer loans	3,919	3,041	878	*29%*
o/w gross customer loans	3,945	3,069	876	*29%*
o/w provisions	(26)	(28)	2	*7%*
Other assets	92	93	(1)	*(1)%*
Total assets	**4,937**	**3,764**	**1,173**	***31%***
Due to customers	4,332	3,252	1,080	*33%*
Wholesale funding	266	278	(12)	*(4)%*
Subordinated liabilities	28	28	-	-
PSBs (accounted as debt)	15	15	-	-
Other liabilities	46	36	10	*27%*
Total liabilities	**4,687**	**3,609**	**1,078**	***30%***
Shareholders' equity	228	133	95	*71%*
PSBs (accounted as equity)	22	22	-	-
Total liabilities and equity	**4,937**	**3,764**	**1,173**	***31%***
Risk-weighted assets	1,829	1,423	406	*29%*
Risk-weighted assets % total assets	37%	38%	(74)Bps	
Common Equity Tier 1 ratio[1]	**11.4%**	**9.2%**	**218bps**	
Total capital ratio[2]	**14.8%**	**13.5%**	**122bps**	

2014 vs. 2013

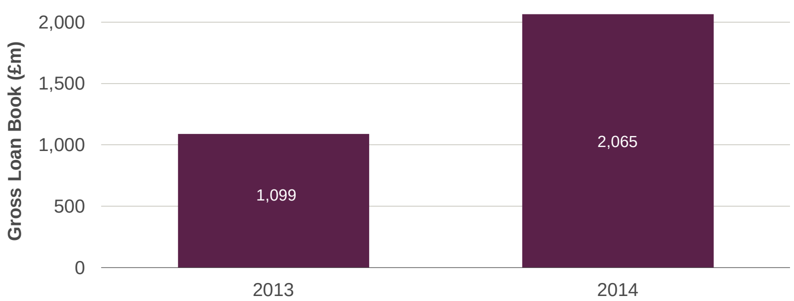
- **29% growth in loans & advances** through strong organic origination of £1.5bn in 2014
- **Growth in retail savings** commensurate with growth in loan book
- **Shareholders' equity** strengthened by net IPO proceeds of £35.8m and profits for the year
- **Fully-loaded CET1 ratio of 11.4%** strengthened by net IPO proceeds (2013 year end CET1 ratio estimated at 8.4% under CRD IV)

[1] Fully-loaded under Basel III / CRD IV as at 31 December 2014 and Basel II as at 31 December 2013.
[2] Under Basel III / CRD IV as at 31 December 2014 and Basel II as at 31 December 2013.

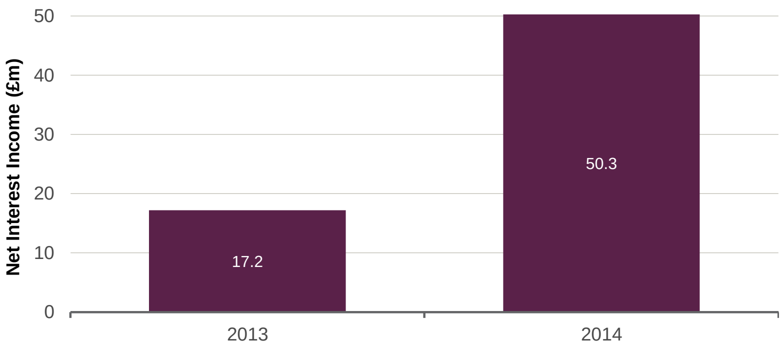
Segmental Results – BTL / SME

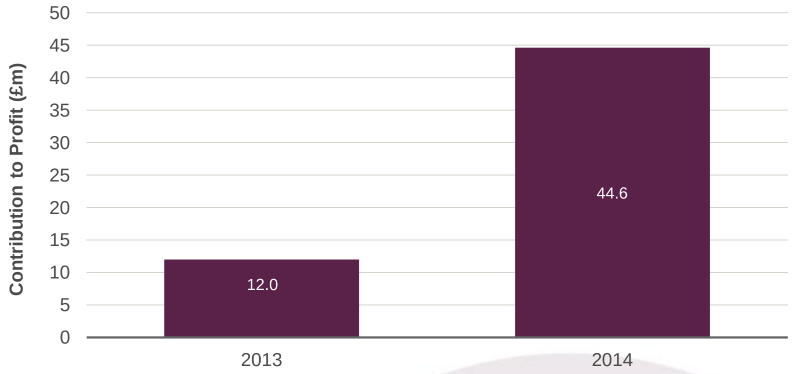
LTVs remain low at 68% (2013: 71%) with only 2% of loans by value with LTVs exceeding 90% (2013: 5%)

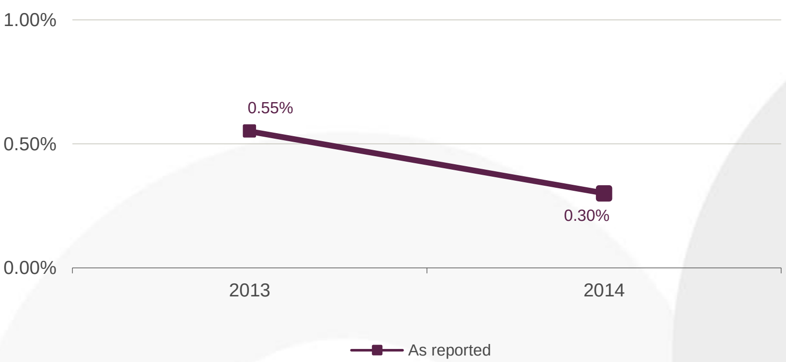
1 **Gross loan book**



2 **Net interest income**







3 **Contribution to profit**[1]

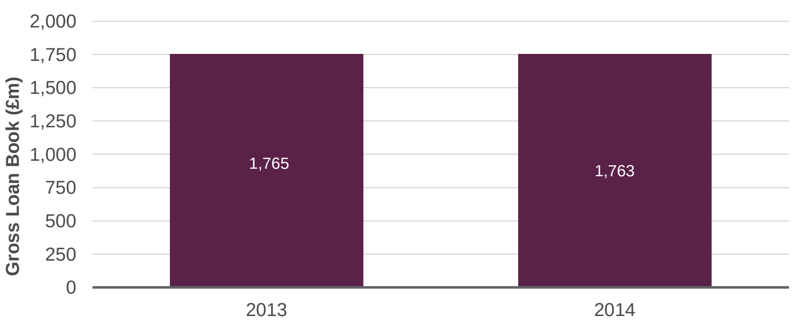
4 **Loan loss charge as % of average gross loans**

[1] Total income less impairment losses

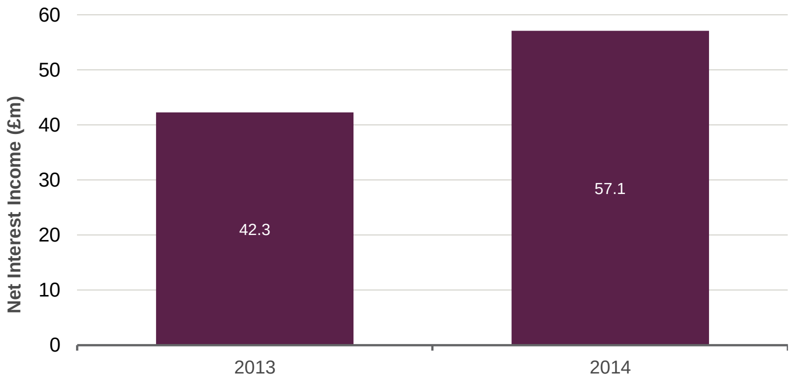
Segmental Results – Residential

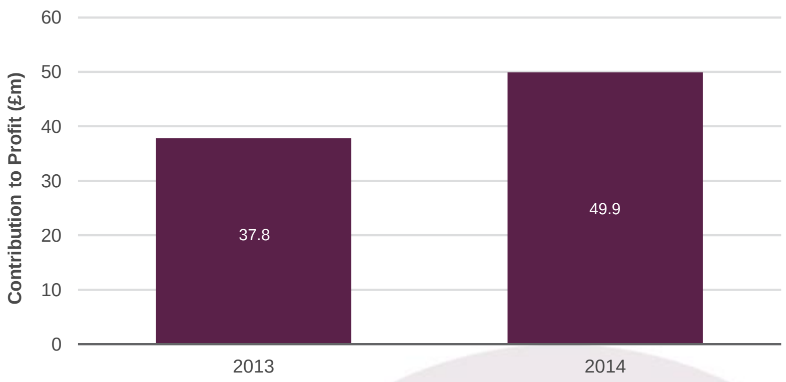
LTVs remain low at 54% (2013: 51%) with only 1% of loans by value with LTVs exceeding 90% (2013: 3%)

1 Gross loan book

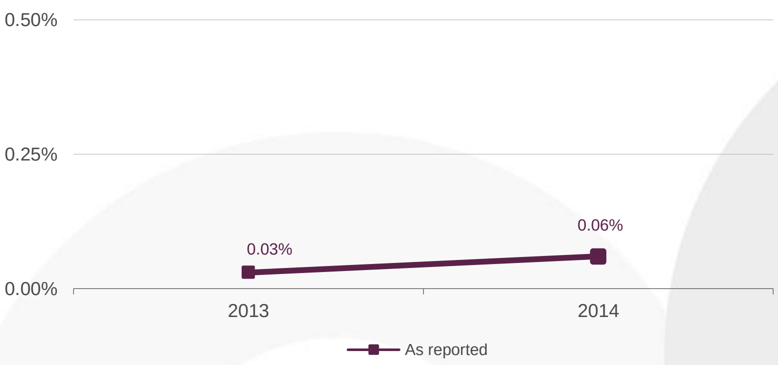


2 Net interest income





3 Contribution to profit[1]



4 Loan loss charge as % of average gross loans

[1] Total income less impairment losses

Segmental Results – Personal Loans

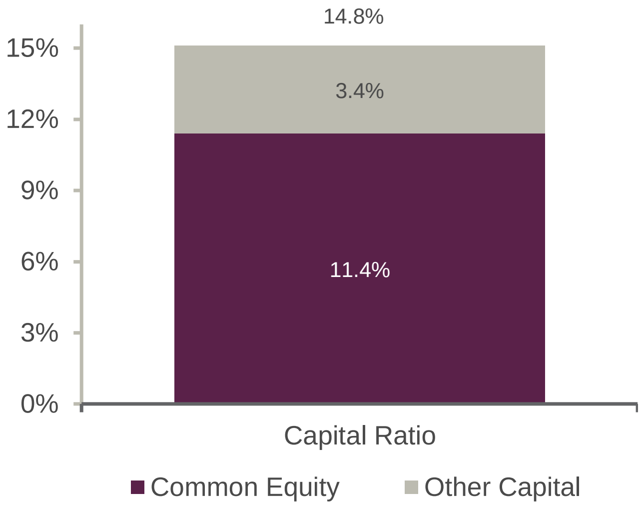
Run off portfolio – Arrears running significantly below forecast

- **Run-off portfolio of performing unsecured consumer loans acquired July 2013**
- **Gross loan book: £117m (Dec 2013: £205m)**
- **Net interest income: £17.7m (2013: £11.2m)**
- **Contribution to profit: £10.4m (2013: £8.3m)**
- **Loan loss charge as a % of average gross loans: 3.6% (2013: 2.2%)**

Capital

Basel III CRD IV capital ratios as at 31 December 2014

- Fully-loaded CRD IV common equity tier 1 (‘CET1’) ratio of 11.4% (2013 year end estimated CRD IV of 8.4%) strengthened with addition of net IPO proceeds of £35.8m
- Leverage ratio of 4.2% as at 31 December 2014



Our strategy

1	**Be a leading specialist lender in chosen sub-sectors**
2	**Retain focus on bespoke and responsive underwriting**
3	**Further deepen relationships, and reputation for delivery, with intermediaries**
4	**Leverage unique and cost efficient operating model**
5	**Maintain and build upon 150 year heritage in savings**

Delivering our strategy (i)

1 Be a leading specialist lender in our chosen sub-sectors

KentReliance	Largest lending business in the Group, offering Buy-to-Let and first charge residential loans.
InterBay Commercial	Specialist semi-commercial/commercial mortgage lender providing Buy-to-Let loans, alongside owner-occupied and investor commercial mortgages throughout England and Wales (acquired in August 2012).
Prestige Finance	Long standing second charge lender, which offers an award-winning range of specialist secured loans throughout the UK (acquired in September 2012).
Heritable Development Finance	Experienced team providing specialist residential development finance to small and medium sized developers with a proven track record (formed in December 2013).
Jersey Home Loans	Specialist residential and Buy-to-Let mortgages for the local market since 2002.
Guernsey Home Loans	Specialist residential and Buy-to-Let mortgages for the local market since 2005.

Delivering our strategy (ii)

2 Retain focus on bespoke and responsive underwriting

- Experienced teams manually underwrite all risks
- Executive management oversight for all new loans and exposures >£1m
- Only 24 loans in 3m+ arrears (£4.5m), out of >14,000 loans (£2.7bn) of new organic origination[1]
- Smooth transition through MMR and positively addressing forthcoming regulation

3 Further deepen relationships, and reputation for delivery, with intermediaries

- Distribution ~100% through strong intermediary relationships
- Consistent market presence supporting intermediaries
- Product innovation and speed to market (within 7 days)
- Kent Reliance intermediary NPS[2] >50%

[1] Since the Bank's creation in February 2011
[2] Net Promoter Score

Delivering our strategy (iii)

4 Leverage unique and cost efficient operating model

- Efficient operating platform supporting growth
- Continued investment in low cost scalable Indian operations
- Cost:Income ratio 28% (2013: 38%) including ongoing investments in IT/technology infrastructure
- Customer NPS increased to 38.9% in 2014 (2013: 32.4%)
- In 2014, named as savings account provider with best customer service in the UK by Which?

5 Maintain and build upon 150 year heritage in savings

- Transparent savings proposition offering good long-term value for customers
- Grew retail deposits by 33% to £4.3bn
- Primarily retail funded with loan to deposit ratio of 90%
- Retained >90% of maturing fixed term customer deposits
- 27,000 new savings customers attracted to the Bank in 2014

Current market trends

- Growth in Buy-to-Let lending to continue, private rented sector market value expected to hit £1 trillion[1] in 2015
- Significant opportunities in professional landlord market due to shortage in supply, despite some new entrants
- Regulation presents opportunities in residential market
- Mortgage broker market share increasing
- Wholesale markets open, however retail funding continues to provide long term stability
- Use of specialist lenders increasing

[1] Forecast to grow by 13.3% from £930.7bn in June 2014.

Summary and Outlook

2014 was a landmark year: Delivered on all financial objectives and profit more than doubled

Macro economic backdrop remains supportive for the overall housing market

Broader mortgage market has seen increased levels of competition; we remain focused on specialist sub-segments

Continue to deliver on financial objectives

Confident in the outlook for our business and anticipate demand will remain strong for our chosen niches

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